



DECEMBER 2023

Accredited body report – NZICA

Findings from the FMA's review of the adequacy and effectiveness of NZICA's audit regulatory systems for the period 1 July 2022 to 30 June 2023

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Executive summary

About this report

The Auditor Regulation Act 2011 (the Act) requires the Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) to monitor the audit regulatory systems of accredited bodies and report annually on the extent to which the systems are adequate and effective.

As frontline regulators, accredited bodies play a crucial role in New Zealand's financial markets, with responsibility for overseeing domestic licensed auditors and registered audit firms. One of the FMA's strategic intentions is to promote trust and confidence in capital markets, and this includes monitoring the licensed auditor population and the quality of audits.

This report contains the findings of our monitoring assessment of NZICA for the period 1 July 2022 to 30 June 2023.

About NZICA and its obligations

The New Zealand Institute of Chartered Accountants (NZICA) and the Institute of Chartered Accountants of Australia (ICAA) formally amalgamated on 1 January 2015 to form Chartered Accountants Australia and New Zealand (CAANZ). However, NZICA continues to regulate the accountancy profession for members who remain resident in New Zealand. For the purpose of the audit oversight regime, NZICA is the accredited body, and therefore the subject of the FMA's annual review.

CAANZ has over 136,000 members globally, with the majority based in Australasia. Of those, NZICA had approximately 26,600 members, with 17 registered firms and 134 licensed auditors, as at 30 June 2023. CAANZ has a number of offices across New Zealand.

NZICA was granted accreditation in accordance with section 50 of the Act.

As an accredited body, NZICA is required by the Act to have adequate and effective systems, policies and procedures in place to perform its regulatory functions. In addition, the FMA has prescribed minimum standards for accredited bodies in relation to governance and organisational structures, internal compliance procedures, policies and audit regulatory systems.

In relation to this review, audit regulatory systems¹ include:

- Membership, licensing and registration
- Monitoring and general oversight
- Promoting and monitoring the competence of members
- Complaints, enquiries, investigations and discipline

The Act also requires NZICA to provide to the FMA an annual report assessing its own performance against its obligations.

¹ Requirements of regulatory functions are set out in section 6 of the Auditor Regulation Act 2011 and in section 3 of the Auditor Regulation Act (Prescribed Minimum Standards for Accredited Bodies) Notice 2012.

How we approached this review

We carried out a comprehensive review of NZICA's regulatory systems, employing a risk-based approach and exercising judgement in selecting the level and detail of work performed in each area.

As part of the review process, we assessed information relating to NZICA's regulatory systems and processes. We reviewed policies and procedures, considered the activity during the period, undertook various sample tests and met with various NZICA personnel from the Regulation and Conduct team during an onsite visit in July 2023, obtaining further information at that time. We also reviewed NZICA's annual report and self-assessment, provided to the FMA on 27 September 2023. This, along with other monitoring and engagement in relation to NZICA throughout the year, provided sufficient detail for us to undertake this review.

In its annual report, NZICA concluded that its overall audit regulatory systems were adequate and effective in discharging its responsibilities as an accredited body under the Act during the year, and that it has allocated sufficient resources to ensure its audit regulatory systems are and continue to be adequate and effective.

Overall assessment

We have concluded that NZICA's audit regulatory systems relevant to our review were adequate and effective during the period.

We have some recommendations for further enhancement, as well as endorsing NZICA's own recommendations and initiatives following a disciplinary case concluded during the review period. Positively, the FMA and NZICA have been engaging constructively, with improvement in the quality of engagement on both auditor and accredited body regulatory matters. We will engage further in the upcoming year to enhance the protocols between the agencies for complaints and referrals.

Focus areas

Membership, licensing and registration

During the period, NZICA licensed 7 new auditors, granted 11 renewals, cancelled 5 auditor licences (all voluntary cancellations), registered 1 audit firm, and cancelled 1 audit firm registration. There were no auditor licences where conditions were imposed or removed, or licences that were suspended or lapsed during the review period.

We reviewed changes to NZICA's systems, policies and procedures for processing and dealing with licence and registration changes, from initial applications to modifications and cancellations, to ensure NZICA meets the prescribed minimum standards for accredited bodies. We also reviewed a sample of the above licensing activity to determine whether the applications and requests were processed and assessed according to these systems, policies and procedures.

Conclusion

In all instances we found the licensing assessments to be reasonable, well documented and processed in accordance with policies and procedures. All sampled licences and renewals were issued in accordance with the prescribed minimum standards, and the cancellations were appropriately managed. We concluded that NZICA's membership, licensing and registration systems were adequate and effective in the review period.

Monitoring and general oversight

NZICA continued monitoring and oversight of its licensed auditors and registered audit firms during the review period, updating its risk assessments and risk register, and performing a number of monitoring procedures.

We reviewed changes to NZICA's systems, policies and procedures for monitoring domestic licensed auditors and registered audit firms. We reviewed NZICA's risk assessments and risk register, and the outcomes of various reviews and enquiries, to assess the adequacy and effectiveness of monitoring work.

We also considered how NZICA developed and implemented strategies to address or mitigate issues of non-compliance and concerns identified through its own monitoring, and from complaints processes and FMA referrals. In all instances we considered whether monitoring and outcomes aligned with focus areas and desired outcomes of the FMA's current plan for oversight and regulation of auditors.

Conclusion

We observed that NZICA undertakes a risk-based approach to monitoring auditors and audit firms by applying a risk rating to all FMC-licensed auditors in accordance with its protocols, to inform the monitoring activity. We made recommendations to NZICA in relation to enhancing processes for risk rating assessments. We concluded NZICA's monitoring and general oversight systems to be adequate and effective in the review period.

Promoting and monitoring competence of members

As part of its regulatory functions, NZICA is responsible for promoting the ongoing competence of licensed auditors.

We assessed NZICA's policies in relation to continuing professional development (CPD) and International Education Standard 8 (IES8) requirements of members, as well as its monitoring and disciplinary protocols related to licensed auditors meeting their ongoing competence requirements. NZICA monitors annual declarations of CPD hours and, for a sample, request the records.

We reviewed a sample of three licensed auditors reviewed by NZICA in the review period, noting NZICA requires a good level of record keeping, and has enhanced follow-up on evidence to support CPD statements.

We also considered NZICA's educational programme, which includes online training such as webinars, events, workshops and podcasts, and collaborations with CAANZ and other learning providers. We reviewed a sample of these to determine the quality of courses promoting auditor competence and whether they respond to evolving issues and address the needs of the industry. NZICA takes a serious view of training, ensuring there is a suite of courses available to members covering a wide range of topics and targeting different competency levels.

Conclusion

We found training provided to the licensed population is sufficient to maintain and extend knowledge of auditing and accounting standards. Regarding CPD and IES8 monitoring, we made recommendations to NZICA to continue to work with firms and auditors with regards to evidencing CPD undertaken. Overall, we concluded NZICA's systems to promote and monitor the competence of licensed auditors to be adequate and effective during the review period.

Complaints, enquiries, investigations and discipline

We considered NZICA's systems, policies and procedures in relation to complaints, enquiries, investigations and disciplinary matters in responding to, and taking action against, misconduct. We note that while no changes were effected during the period, CA ANZ/NZICA commenced a significant Professional Conduct Framework Review. We will be interested to review any future changes. We also obtained the status of:

- all enquiries and investigations in response to FMA referrals or complaints;
- reporting and communications back to the FMA on such; and
- complaints made to NZICA other than those from the FMA

in relation to licensed auditors or firms. We undertook several enquiries in relation to this activity and also reviewed a disciplinary case of interest that was concluded within the review period.

Conclusion

In response to prior recommendations, NZICA implemented a number of enhancements to its processes and protocols. There is ongoing engagement between FMA and NZICA to further enhance protocols for complaints and referrals of a disciplinary nature. Overall, we concluded NZICA's systems relating to complaints, enquiries, investigations and discipline to be adequate and effective during the review period.

Future focus

We will continue to monitor NZICA's compliance with the requirements of the Act, the prescribed minimum standards, and the conditions of its accreditation.

The FMA has regular contact with NZICA regarding its regulatory functions, through our Audit and Frontline Regulators teams. When required, we communicate early about our expectations, rather than waiting until the end of a review period. There is continuing focus on the enhancement of protocols for complaints and referrals of a disciplinary nature.

